FX Clearing Overview

Highlights of the clearing mandate

- **Who will be required to clear?**
  - Swap Dealers, Major Swaps Participants
  - Other Financial Entities that are U.S. persons or whose trading activities have a significant impact on U.S. commerce.
    - Includes private funds, commodity pools and ERISA plans
    - Principal place of business does not apply to collective investment vehicles
    - Proposed prong (iv) on ownership
    - Subject to reopen in July 2013
  - End-users that are not hedging or mitigating commercial risk

- **What products will be cleared and when?**
  - FX options and non-deliverable forwards.
    - FX spot, swaps and forwards are exempt
  - High level steps in timeline
    - CCP accepts the type of swap and submits application to CFTC
    - CFTC opens comment period (e.g. 30 days)
    - CFTC determine that the swap must be cleared and makes determination.
    - Clearing requirement becomes effective, with potential implementation dates 90, 180 or 270 days after determination based on the type of entity

- **How will the products be cleared?**
  - Only registered Futures Commissions Merchants (FCMs) may act as clearing brokers for U.S. persons clearing swaps on a registered Derivatives Clearing Organization (DCO)
    - Registered DCOs: CME, ICE, LCH
  - U.S. Entities that are required to clear and that are not clearing members of a CCP will have to establish accounts with FCMs
## OTC Clearing documentation

<table>
<thead>
<tr>
<th>Aspect</th>
<th>FCM Model</th>
<th>European Model</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Counterparty Default Protection</strong></td>
<td>U.S. Bankruptcy Code and CFTC regulations</td>
<td>CCP Rules (as delegated by UK Bankruptcy Act or equivalent)</td>
</tr>
<tr>
<td><strong>Overall Relationship</strong></td>
<td>Client Agreement (Existing F&amp;O Clearing documentation)</td>
<td>Existing F&amp;O Clearing documentation</td>
</tr>
<tr>
<td><strong>OTC Clearing Relationship</strong></td>
<td>FIA/ISDA based OTC Addendum for Cleared Derivatives</td>
<td>FOA/ISDA based OTC Addendum for Cleared Derivatives</td>
</tr>
<tr>
<td><strong>Trading Execution Relationship</strong></td>
<td>FIA/ISDA based Cleared Derivatives Execution Agreement</td>
<td>FOA/ISDA Cleared Derivatives Execution Agreement</td>
</tr>
</tbody>
</table>